

WATER/ABJ/PTL/RKN:jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
Water Branch**

**RESOLUTION NO. W- 4333
June 6, 2002**

RESOLUTION

**(RES. W-4333), DEL ORO WATER COMPANY, INC., PARADISE
PINES DISTRICT (PPD). ORDER AUTHORIZING A GENERAL
INCREASE IN RATES PRODUCING \$121,745 OR 10.51%
ADDITIONAL ANNUAL REVENUE.**

SUMMARY

By Draft Advice Letter, accepted on November 5, 2001, PPD seeks to increase revenues by \$121,745 or 10.51% to recover increased expenses of operation and earn an adequate return on its plant investment. For Test Year 2002, this resolution grants an increase in gross annual revenues of \$121,745 or 10.51%, which is estimated to provide a rate of return on rate base of 6.65%.

BACKGROUND

PPD requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$121,745 per year or 10.51% in 2002. PPD's request shows that its gross revenue of \$1,158,670 at present rates would increase to \$1,280,415 at proposed rates.

PPD's last general rate increase became effective on July 1, 1997, pursuant to Commission Res. W-4049, which authorized a rate increase of \$74,283 or 7.18% with a rate of return of 10.90%. PPD's current rates became effective on September 25, 2001, pursuant to Res. W-4300, which authorized a rate base offset increase of \$109,909 or 11.11%. PPD presently serves 4,483 metered customers in the area known as Fir Haven Subdivision, Sierra Del Oro Subdivisions, Paradise Pines Subdivisions, and vicinity, located approximately six miles north of Paradise, Butte County.

DISCUSSION

The Water Division (Division) made an independent analysis of PPD's summary of earnings. Appendix A shows PPD's and the Division's estimates of the summaries of earnings at present, requested, and adopted rates for test year 2002. Appendix A also shows differences between PPD's and the Division's estimates of operating expenses and rate base. PPD accepted the Division's estimates but requests authority to establish a full-cost purchased power balancing account. The Division believes that there are opportunities for PPD to reduce power costs by making certain adjustments to its operation. A full-cost balancing account, which requires refunding of any savings in power costs to customers, would certainly remove any motivation for the utility to pursue changes in its operation to improve efficiency. Instead Division recommends that a purchase power memorandum account be authorized. PPD is not required to seek recovery from a memorandum account. If it does so, PPD's ability to recover from the purchase power memorandum account is contingent upon the reasonableness of account entries and shall include, but not be limited to, an assessment of the utility's reasonable pursuit of energy efficiency measures.

PPD's draft advice letter requested rates that it estimated would produce a rate of return on rate base of 9.97%. The Division's Audit and Compliance Branch (ACB) has determined that a 9.97% rate of return for PPD is reasonable, therefore, the summary of earnings in Appendix A shows a rate of return of 9.97% at the Division's recommended rates. PPD did not include in its projected power expenses PG&E's rate surcharge increases authorized by Commission Decisions 01-03-082 and 01-05-064. Therefore, its purchased power cost estimate is understated. In contrast, the Division based its estimate on projected power consumption in the test year using current Pacific Gas and Electric Company's rates which include the latest rate surcharge increases. Accordingly, Division's estimate of \$385,439 exceeds PPD's estimate of \$246,461 by \$138,978. In order that PPD not earn more than the 9.97% rate of return found reasonable by ACB, the Division recommends that only \$315,439 of purchased power expense be recovered in rates. Although this amount falls \$69,908 short of the Division's estimate of \$385,439, the total rate increase recommended by Division is the same as the full amount requested by PPD and noticed to its customers. Furthermore, the Division believes that PPD may significantly reduce its power expense by making certain efficiency improvement adjustments in its operation. PPD plans to implement such improvements or adjustments. They could include installing a single primary meter for Well # 6 and the booster pump, installing variable frequency drives for its pump motors and installing a self generation system. These improvements should reduce power costs enough to where PPD should be able to cover its costs in rates. Since it will be necessary for PPD to invest capital for utility plant and equipment in order to make the energy efficiency improvements, it should be allowed to file, by advice letter, for appropriate rate relief to recover the prudent capital costs associated with the energy efficiency improvement of its system. PPD has indicated that it will work with the Division to make the adjustments.

Under guidelines established by Commission Decision No. (D.) 92-03-093, the Commission staff must calculate net revenues by both the return on rate base and the operating ratio methods that determine revenue and select the method that produces the most revenue. Division evaluated the

net revenue using both methods and determined that the return on rate base method provides the most revenue.

PPD's filed tariffs currently contain one rate schedule, Schedule No. PP-1A – Annual General Metered Service. PPD proposes to increase rates uniformly, increasing both the service charge rates and the commodity rate by the system average increase of 10.51%. Current rate design policy allows Class B water utilities to recover up to 50% of its fixed costs in the service charge component of a metered rate schedule. Compliance with this policy was inadvertently overlooked when rates were set in PPD's last general rate case, therefore, a uniform increase in service charge and commodity rates proposed by PPD will only perpetuate non-compliance with service charge revenue recovering approximately 68% of fixed costs. Although the Division recommended rates, shown in Appendix B, allow 62% recovery of fixed costs in the service charge, it is a reduction from 68%. Division recommends that further reduction be made in subsequent general rate increases until 50% is achieved. The rate design recommended by Division also makes adjustments to the service charges for meters greater than 1-inch in order to more closely conform to the rate design policy for service charge allocation by meter size established in Commission D.85-06-064.

At the Division's recommended rates shown in Appendix B, the monthly bill for a 5/8 X 3/4 metered customer using 1,000 cubic feet of water will increase by \$2.22 from \$21.30 to \$23.52 or 10.42%. A comparison of customer bills at present and recommended rates is shown in Appendix C.

The adopted quantities and tax calculations are shown in Appendix D.

NOTICE AND PROTESTS

A notice of the proposed increase in rates and notice of a public meeting were mailed to each customer on November 15, 2001. The Division received six letters responding to the notice. The responses complained of the magnitude of the requested increase. The Commission's Consumer Affairs Branch (CAB) reports that it has received two complaints on PPD and they were both related to billing.

CAB informed the Division that PPD promptly responds and resolves complaints.

On December 12, 2001, the Division held a public meeting in PPD's service area. The Division's representative explained the Commission's rate-setting procedure and the utility's representative explained the need for the increase. There were three individuals present at the meeting. The comments and questions raised by the persons attending the meeting dealt mainly with the need and magnitude of the increase.

FINDINGS AND CONCLUSIONS

1. The Division's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Division (Appendix B) are reasonable and should be authorized.
3. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
4. The rate increase proposed by the Division is the full amount requested by PPD and noticed to its customers.
5. The rate increase recommended by the Division includes a projected power expense less than actual year 2001 usage at current PG&E rates and surcharges.
6. PPD plans to pursue development of energy efficiency measures to achieve reduced power costs.
7. It is reasonable for PPD to have a purchased power memorandum account to track power costs in the event that the reasonable power efficiency measures pursued by PPD are unsuccessful.
8. The rate increase proposed by the Division is justified and the resulting rates are just and reasonable.
9. Power costs may significantly be reduced by adjusting certain utility operations thereby causing the cost of power not to exceed the power expense estimate recommended by the Division.

IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 for the Del Oro Water Company, Inc., Paradise Pines District, to file an advice letter incorporating the Summary of Earnings and revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently to cancel its presently effective rate Schedule No. PP-1A – Annual General Metered Service. Its filing shall comply with General Order 96-A. The effective date of the revised schedule shall be five days after the date of filing.
2. Del Oro Water Company, Inc., Paradise Pines District, is authorized to establish a purchase power memorandum account to track power costs.

3. Del Oro Water Company, Inc., Paradise Pines District, may, but is not required, to seek recovery of memorandum account by advice letter. Said recovery is contingent upon the reasonableness of account entries and shall include as assessment of whether Paradise Pines District has pursued reasonable energy efficiency measures.
4. Del Oro Water Company, Inc., Paradise Pines District, may file, by advice letter, for appropriate rate relief related to prudent capital investment associated with the energy efficiency improvement of its system.
5. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the adopted by the Public Utilities Commission held on June 6, 2002; the following Commissioners voting favorably thereon:

WESLEY M. FRANKLIN
Executive Director

APPENDIX A
Summary of Earnings

Del Oro Water Company, Paradise Pines District
Test Year 2002

Item	PPD Estimated		Branch Estimated		<u>Recommended</u>
	Present Rates	Requested Rates	Present Rates	Requested Rates	<u>Rates</u>
Operating Revenues					
Metered	1,158,670	1,280,415	1,158,670	1,350,329	1,280,415
Other					
Total Revenues	1,158,670	1,280,415	1,158,670	1,350,329	1,280,415
Operating Expenses					
Purchased Water	16,215	16,215	0	0	0
Purchased Power	246,461	246,461	385,439	385,439	315,531
Employee Labor	147,581	147,581	132,959	132,959	132,959
Materials	16,899	16,899	16,753	16,753	16,753
Contract Work	20,636	20,636	20,517	20,517	20,517
Transportation	36,947	36,947	31,729	31,729	31,729
Other Plant Maint.	491	491	488	488	488
Office Salaries	126,072	126,072	125,555	125,555	125,555
Mgmt. Salaries	75,339	75,339	73,543	73,543	73,543
Empl. Pens. & Benefits	42,637	42,637	42,637	42,737	42,737
Uncollectibles	5,686	5,686	5,686	5,686	5,686
Office Svc. & Rentals	57,646	57,646	57,646	57,646	57,646
Office Supp. & Exps.	57,222	57,222	53,613	53,613	53,613
Professional Services	31,674	31,674	6,944	6,944	6,944
Insurance	20,731	20,731	14,182	14,182	14,182
Reg. Comm. Exp.	13,351	13,351	8,365	8,365	8,365
General Expense	4,797	4,797	4,769	4,769	4,769
Other Volume Related	990	998	990	990	990
Subtotal	921,383	921,383	981,815	981,815	911,907
Depreciation	111,634	111,634	123,554	123,554	123,554
Payroll taxes	19,740	19,740	19,741	19,741	19,741
Property taxes	28,068	28,068	28,068	28,068	28,068
Income Taxes	800	8,914	800	8,366	8,367
Total Deductions	1,081,625	1,089,739	\$1,153,978	1,153,978	1,091,636
Net Revenue	77,081	190,704	4,692	126,437	188,877
Rate Base					
Average Plant	5,636,507	5,636,507	5,636,507	5,636,507	5,636,507
Average Depr. Res.	-3,462,531	-3,462,531	-3,488,827	-3,488,827	-3,488,827
Net Plant	2,173,976	2,173,976	2,187,680	2,187,680	2,187,680
Less: Advances	-86,100	-86,100	-86,100	-86,100	-86,100
Contributions	-259,508	-259,508	-290,325	-290,325	-290,325
Deferred income taxes					
Plus: Working Cash	76,779	76,779	81,062	81,062	74,992
Mat'l & Suppl.	7,157	7,157	7,157	7,157	7,157
Rate Base	1,912,304	1,912,307	1,899,463	1,899,463	1,893,404
Rate of Return	4.03%	9.97%	0.25%	9.97%	9.97%

(END OF APPENDIX A)

Appendix B

Rates

Del Oro Water Company, Paradise Pines District Test Year 2002

Schedule No. PP-1A

ANNUAL GENERAL METERED SERVICE

PARADISE PINES DISTRICT

APPLICABILITY

Applicable to all metered water service furnished on an annual basis to the Paradise Pines District service area.

TERRITORY

All territory served by Del Oro Water Company, Inc. In the area known as Paradise Pines Subdivisions,
and vicinity, located approximately 6 miles north of Paradise, Butte County.

RATES

Quantity Charge:

All Water, per 100 cu.ft.....\$1.3420

Service Charge:

Per Meter
Per Year

For 5/8 x 3/4-inch meter	\$121.20
For 3/4-inch meter	\$182.40
For 1-inch meter	\$306.00
For 1.5-inch meter	\$516.96
For 2-inch meter	\$709.92
For 3-inch meter	\$1,223.04
For 4-inch meter\$1,617.96

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the monthly charge computed at the Quantity Rate.

(END OF APPENDIX B)

Appendix C

Comparison of Rates

Del Oro Water Company, Paradise Pines District Test Year 2002

	Per Service Connection Per Year			
	Present Rates	Recommended Rates	% Increase	
Metered Rate Service				
Service Charge:				
5/8 x 3/4-inch meter	121.20	121.20	0	
3/4 - inch	182.40	182.40	0	
1-inch meter	306.00	306.00	0	
1 1/2 - inch	427.80	516.96	20.8415	
2-inch meter	587.40	709.92	20.8580	
3-inch meter	1,011.00	1,223.04	20.9733	
4-inch meter	1,337.40	1,617.96	20.9780	
Quantity Charge				
Total charge All water, per 100 cu.ft.	1.12	1.3420	19.82142	
Quantity Charge structure:	Base Rate Total charge	1.3420 1.3420		
A monthly comparison bill for a customer with a 5/8 x 3/4 -inch meter is shown below:				
Monthly Usage in 100 cu. ft.	Present Bills	Recommended Bills	Amount Increase	% Increase
	\$	\$	\$	%
0	10.10	10.10	0	0.0%
(Average) 10	21.30	23.52	2.22	10.423%
20	32.50	36.94	4.44	13.662%
40	54.90	63.78	8.88	16.175%
60	77.30	90.62	13.32	17.232%
80	99.70	117.46	17.76	17.813%
100	122.10	144.30	22.20	18.182%

(END OF APPENDIX C)

APPENDIX D
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DEL ORO WATER COMPANY
PARADISE PINES DISTRICT
ADOPTED QUANTITIES
Test Year 2002

1.	Purchased Power	
	Pacific Gas and Electric Company	
	Effective Date January 1, 2002	
	Schedule A-1 Medium General Demand Metered Service	
	ENERGY CHARGE	
	(per kWh per month)	
	Summer	\$0.1487
	Winter	\$0.10193
	ENERGY PROCUREMENT SURCHARGE	
	(per kWh per month)	
	Summer	\$0.0714
	Winter	\$0.03838
	Total Cost	\$385,439
	Total kWh	1,971,447
	Average Unit Cost \$/kWh	\$0.19551
2.	Payroll	
	Employee Labor	\$132,959
	Office Salaries	\$125,555
	Management Salaries	\$ 73,543
3.	Payroll Taxes	\$19,741
4.	Property taxes	\$28,068

APPENDIX D

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DEL ORO WATER COMPANY PARADISE PINES DISTRICT

ADOPTED QUANTITIES

Test Year 2002

SERVICE CONNECTIONS

Meter Size	
5/8 x 3/4 "	4445
3/4 "	0
1"	21
1-1/2 "	9
2"	2
3"	3
4"	3
	<u>4483</u>

Metered Water Sales Used to Design Rates

	<u>Usage – Ccf/Year</u>
General Metered	537,000
	=====

ADOPTED TAX CALCULATIONS

1. Operating Revenues	\$1,280,415
2. Expenses	\$911,890
3. Depreciation	\$123,554
4. Taxes Other Than Income	\$47,808
5. Interest Expense	\$160,000
6. Taxable Income for State Tax	\$37,162
7. State Tax	\$3,285
8. Taxable Income for FIT	\$33,877
9. Federal Tax	\$5,082

(END OF APPENDIX D)